

Consolidated Financial Statements (Japanese Accounting Standard)

February 12, 2016

(For the nine months ended December 31, 2015)

Name of Company Listed: **Leopalace21 Corporation** Stock Listing: Tokyo Stock Exchange
 Code Number: 8848 URL: <http://eg.leopalace21.com/> Location of Head Office: Tokyo
 Representative: Position: President and CEO Name: Eisei Miyama
 Name of Contact Person: Position: Executive Officer Name: Bunya Miyao Telephone: +81-3-5350-0216
 Scheduled Date of Filing of Securities Report (Japanese only): February 15, 2016
 Scheduled Date of Commencement of Dividend Payments: –
 Supplemental Explanatory Material Prepared: Yes
 Results Briefing Held: No

1. Results for the Nine months ended December 31, 2015 (April 1, 2015 through December 31, 2015)

(1) Consolidated financial results (Amounts less than one million yen are omitted)
 (The percentage figures indicate rate of gain or loss compared with the same period last year)

	Net sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2015	376,541	7.4	15,609	64.1	14,664	69.8	12,462	58.6
Nine months ended December 31, 2014	350,756	2.1	9,513	8.7	8,637	20.3	7,856	22.7

(Note) Comprehensive income As of December 31, 2015: 12,497 million yen (32.4 %); As of December 31, 2014: 9,442 million yen (-9.0 %)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2015	47.41	—
Nine months ended December 31, 2014	29.89	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Equity per share
	Million yen	Million yen	%	Yen
As of December 31, 2015	313,236	138,991	44.4	528.54
As of March 31, 2015	308,274	126,473	41.0	481.05

(Reference) Shareholders' equity As of December 31, 2015: 138,939 million yen; As of March 31, 2015: 126,455 million yen

2. Dividend Status

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of Q4	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2015	—	0.00	—	0.00	0.00
FY ending March 31, 2016	—	0.00	—		
FY ending March 31, 2016 (Estimate)				10.00	10.00

(Note) Restatement of most recent dividend forecast: No

3. Estimation of Business Results for the Fiscal Year ending March 31, 2016 (April 1, 2015 through March 31, 2016)

(The percentage figures for full year indicate rate of gain or loss compared with the previous FY, while those for the interim period indicate rate of gain or loss compared with the same term in the previous FY)

	Net Sales		Operating profit		Recurring profit		Net income attributable to shareholders of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY ending March 31, 2016	525,000	8.7	19,500	32.1	18,000	34.1	16,000	10.3	60.87

(Note) Restatement of most recent consolidated business results forecast: None

4. Other

- (1) Changes in major subsidiaries during the subject period (change in specific subsidiaries resulting in a change in the scope of consolidation): None
- (2) Use of accounting procedures specific to the preparation of quarterly financial statements: Yes
(Note) For details, please refer to P.6 "2. Matters Relating to Summary Information (2) Application of Accounting Methods Specific to the Preparation of Quarterly Consolidated Financial Statements."
- (3) Changes in accounting principles, procedures or reporting methods used in preparation of financial statements (changes in important items concerning preparation of financial statements)
 - (i) Changes in accounting policies accompanying revision of accounting standards, etc.: Yes
 - (ii) Changes in accounting policies other than (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatements: None

(Note) For details, please refer to P.6 "2. Matters Relating to Summary Information (3) Changes in Accounting Policy, Changes in Accounting Estimates, and Restatements."
- (3) Total number of outstanding shares (common stock)
 - (i) Total number of outstanding shares at term end (including treasury stock)
As of December 31, 2015: 267,443,915 shares, As of March 31, 2015: 267,443,915 shares
 - (ii) Total treasury stock at term end
As of December 31, 2015: 4,569,430 shares, As of March 31, 2015: 4,569,430 shares
 - (iii) Average number of outstanding shares during the period
As of December 31, 2015: 262,874,485 shares, As of December 31, 2014: 262,874,609 shares

*Indication regarding the status of auditing:

These financial statements are not subject to auditing under the Financial Instruments and Exchange Act. The review of these financial statements in accordance with the Financial Instruments and Exchange Act completed at the time of disclosure.

*Explanation on the proper use of the business forecasts, and other special notices:

(Note on the business forecasts and other forward-looking statements)

The business forecasts and other forward-looking statements contained in this report are based on information currently available to the Company and on certain assumptions that Leopalace21 has judged to be reasonable. Readers should be aware that a variety of factors might cause actual results to differ significantly from these forecasts.

For assumptions of business forecasts and notes on the proper use of these forecasts, please refer to P.5 "1. Business Results (3) Explanation Concerning Business Forecasts and Other Forward-looking Statements."

(Method for the acquisition of supplemental explanatory material)

Supplemental Explanatory Material on quarterly financial statements is scheduled to be posted on the Company's web site on February 12, 2016.

【Table of Contents】

1. Business Results	4
(1) Analysis of Business Results	4
(2) Analysis of Consolidated Financial Position	5
(3) Explanation Concerning Business Forecasts and Other Forward-looking Statements	5
2. Matters Relating to Summary Information	6
(1) Changes in Significant Subsidiaries during the First Nine Months under Review	6
(2) Application of Accounting Methods Specific to the Preparation of Quarterly Consolidated Financial Statements	6
(3) Changes in Accounting Policy, Changes in Accounting Estimates, and Restatements	6
3. Consolidated Financial Statements	7
(1) Consolidated Balance Sheets	7
(2) Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income	9
Consolidated Statements of Operations	9
Consolidated Statements of Comprehensive Income	10
(3) Notes Regarding Consolidated Financial Statements	11
(Notes Regarding the Premise of the Company as a Going Concern)	11
(Note Regarding Significant Changes in Shareholders' Equity)	11
(Segment Information)	12

1. Business Results

(1) Analysis of Business Results

(Million yen)

	Net sales	Operating profit	Recurring profit	Net income attributable to shareholders of the parent
Nine months ended December 31, 2015	376,541	15,609	14,664	12,462
Nine months ended December 31, 2014	350,756	9,513	8,637	7,856
Difference	25,785	6,095	6,026	4,606

During the subject nine months, the domestic economy showed gradual progression, such as signs of recovery in individual consumption, due to an improvement in corporate earnings, employment, and income.

In the rental housing industry, negative effects of the rush demand from the increase in consumption tax began to fade, and as apartment construction continues to be an ideal inheritance tax-reduction strategy, new housing starts of leased units trended at a steady pace. On the other hand, as the number of vacant houses increases due to oversupply, achieving stable occupancy rates requires constructing apartments in areas with high demand, as well as providing high-quality housing and services.

Under these conditions, the Leopalace21 Group (the "Group") aims to achieve targets of the Medium-term Management Plan "EXPANDING VALUE," which is in its second year, by building a solid management structure focusing on the core businesses, made up of Leasing and Construction. In addition, the Group aims to establish new businesses that will contribute to future growth.

As a result, net sales for the first nine months were 376,541 million yen (up 7.4% year-on-year). Operating profit was 15,609 million yen (up 64.1% year-on-year), recurring profit was 14,664 million yen (up 69.8% year-on-year), and net income attributable to shareholders of the parent was 12,462 million yen (up 58.6% year-on-year).

The Group's Construction Business has many building construction contracts stipulating completion in the fourth quarter, which is when demand for apartments is highest. In the Leasing Business, the number of apartments under management will increase as apartments are completed, so seasonal fluctuations put a preponderance of earnings into the fourth quarter.

(Actual figures by segment)

(Million yen)

	Net sales			Operating profit		
	Nine months ended December 31, 2014	Nine months ended December 31, 2015	Difference	Nine months ended December 31, 2014	Nine months ended December 31, 2015	Difference
Leasing Business	296,353	304,987	8,633	15,146	18,155	3,009
Construction Business	37,694	51,494	13,799	(1,855)	852	2,708
Elderly Care Business	7,978	8,072	93	(380)	(934)	(554)
Hotels & Resort Business	6,546	8,518	1,972	(690)	(389)	301
Others	2,182	3,468	1,286	280	530	249
Adjustments	-	-	-	(2,987)	(2,605)	381
Total	350,756	376,541	25,785	9,513	15,609	6,095

(i) Leasing Business

The occupancy rate at the end of the third quarter was 86.89% (up 1.20 points from the end of the same quarter last year) and the average occupancy rate for the period was 87.41% (up 1.45 points year-on-year).

In the Leasing Business, to establish stable profits led by occupancy improvement, the Group implemented measures such as expanding tenant services including "Room Customize" and website for tenants "MY PAGE", as well as further strengthening sales for female and corporate customers by security system installations. In addition, the Group aims to increase foreign tenants by refining customer support.

The number of units under management at the end of the third quarter was 560,000 (increasing 5,000 from the end of the last fiscal year), the number of direct offices was 189 (increasing 1 from the end of the last fiscal year), and the number of franchise offices was 130 (decreasing 11 from the end of the last fiscal year).

As a result, net sales amounted to 304,987 million yen (up 2.9% year-on-year), and operating profit was 18,155 million yen (up 19.9% year-on-year).

(ii) Construction Business

Orders received during the subject nine months were 60,977 million yen (down 8.7% year-on-year) and the orders received outstanding stood at 65,406 million yen (up 0.7% from the end of the same quarter last year).

In the Construction Business, the Group aimed to improve profitability by focusing apartment supply in the three metropolitan areas where solid leasing demand is anticipated, as well as providing high quality products with earthquake-resistant and better sound insulation. In addition, the Group implemented a new brand attempting to strengthen product competitiveness and refresh the image of tenants, expanded construction variations based on “ideal land use”, and has begun reconsidering suppliers and its product prices.

As a result, net sales came to 51,494 million yen (up 36.6% year-on-year), and operating profit was 852 million yen (compared to a loss of 1,855 million yen in the same period of the previous fiscal year).

(iii) Elderly Care Business

Net sales were 8,072 million yen (up 1.2% year-on-year), and operating loss was 934 million yen (increasing loss of 554 million yen year-on-year). In the Elderly Care Business, which was positioned as growth strategy area in the Medium-term Management Plan, the Group will open new facilities in collaboration with the Construction Business.

(iv) Hotels & Resort Business

Net sales of the resort facilities in Guam and hotels in Japan were 8,518 million yen (up 30.1% year-on-year), and operating loss was 389 million yen (decreasing loss of 301 million yen year-on-year).

(v) Other Businesses

In Other Businesses such as the small-claims and short-term insurance business, the solar power generation business, and the finance business, net sales were 3,468 million yen (up 58.9% year-on-year), and operating profit was 530 million yen (up 88.8% year-on-year).

(2) Analysis of Consolidated Financial Position

(i) Position of Assets, Liabilities, and Net assets

(Million yen)

	Assets	Liabilities	Net assets
As of December 31, 2015	313,236	174,244	138,991
As of March 31, 2015	308,274	181,801	126,473
Difference	4,961	(7,556)	12,518

Total assets at the end of the third quarter increased 4,961 million yen from the end of the previous fiscal year to 313,236 million yen. This was mainly attributable to an increase of 4,622 million yen in cash and cash equivalents, 1,421 million yen in machinery, equipment, and vehicles related to the solar power generation business, 1,371 million yen in leased assets and 1,486 million yen in construction in progress, despite a decrease of 1,151 million yen in other accounts receivable and 2,624 million yen in buildings and structures.

Total liabilities decreased 7,556 million yen from the end of the previous fiscal year to 174,244 million yen. This primarily reflected a decrease of 18,069 million yen in short-term interest-bearing debt, 6,319 million yen in unpaid expenses and 8,402 million yen in long and short term advances received, despite an increase in long-term interest-bearing debt of 25,825 million yen due to the issuance of corporate bonds.

Net assets increased 12,518 million yen from the end of the previous fiscal year to 138,991 million yen, chiefly due to a recording of 12,462 million yen in net income attributable to shareholders of the parent. The ratio of shareholders' equity to assets rose 3.4 points from the end of the previous fiscal year, to 44.4%.

(3) Explanation Concerning Business Forecasts and Other Forward-looking Statements

Business forecasts announced in the consolidated financial statements published on May 11, 2015 remain unchanged.

Please note that business forecasts and other forward-looking statements contained in this report are based on information currently available to the Group as of the publication of this statement, and actual results may differ due to a variety of factors.

2. Matters Relating to Summary Information

(1) Changes in Significant Subsidiaries during the First Nine Months under Review

Not applicable

(2) Application of Accounting Methods Specific to the Preparation of Quarterly Consolidated Financial Statements

Tax expenses are calculated by multiplying net income before income taxes by a reasonably estimated effective tax rate, after applying the tax effect accounting to net income before income taxes for the consolidated fiscal year that includes the cumulative third quarter.

(3) Changes in Accounting Policy, Changes in Accounting Estimates, and Restatements

(Changes in accounting policies)

(Application of accounting policies related to business combinations)

Starting in the first quarter of the consolidated fiscal year, the Accounting Standard for Business Combinations (ASBJ Statement No. 21 on September 13, 2013; hereinafter referred to as the "Business Combinations Accounting Standard"), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 on September 13, 2013; hereinafter referred to as the "Consolidated Accounting Standard"), the Accounting Standard for Business Divestiture (ASBJ Statement No. 7 on September 13, 2013; hereinafter referred to as the "Business Divestiture Accounting Standard"), and other standards, Leopalace21 Corporation (the "Company") changed accounting methods to those recording differences from fluctuations in equity that the Company holds in subsidiaries, for which the Company continues to control as capital surplus, and recording acquisition-related expenses as expenses for a consolidated fiscal year when the relevant expenses incur. The Company also changed accounting methods to those reflecting a review of the distribution amount of acquisition costs following the finalization of preliminary accounting processing for business combinations that are carried out after the beginning of the first quarter of the consolidated fiscal year to quarterly consolidated financial statements for the consolidated quarterly accounting period to which the business combination belongs. Moreover, the Company changed the presentation, such as quarterly net income, and the presentation of minority interests to non-controlling interests. To reflect changes in the relevant presentation, the Company reclassified quarterly consolidated financial statements for the first nine months of the previous consolidated fiscal year and consolidated financial statements for the previous consolidated fiscal year.

The Company applies the Business Combinations Accounting Standard and other standards in compliance with the transitional handling as set forth in Paragraph 58-2 (4) of the Business Combinations Accounting Standard, Paragraph 44-5 (4) of the Consolidated Accounting Standard and Paragraph 57-4 (4) of the Business Divestiture Accounting Standard, and it applied these standards from the beginning of the first quarter of the consolidated fiscal year and will continue to apply them in the future.

There is no impact on profits and losses from the changes described above.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	December 31, 2015	March 31, 2015
<Assets>		
Current assets		
Cash and cash equivalents	79,844	75,221
Trade receivables	5,723	6,254
Accounts receivable for completed projects	2,274	1,714
Operating loans	954	1,135
Securities	693	831
Real estate for sale	21	21
Payment for construction in progress	1,250	647
Raw materials and supplies	568	609
Prepaid expenses	3,293	3,656
Deferred tax assets	4,452	4,447
Other accounts receivable	1,862	3,013
Others	4,104	4,907
Allowance for doubtful accounts	(225)	(199)
Total current assets	104,819	102,263
Non-current assets		
Property, plant, and equipment		
Buildings and structures	57,274	59,899
Machinery, equipment, and vehicles	16,537	15,115
Land	83,912	83,289
Leased assets	9,252	7,880
Construction in progress	2,478	992
Others	1,888	2,253
Total property, plant, and equipment	171,344	169,430
Intangible fixed assets		
Goodwill	1,572	1,684
Others	7,334	7,210
Total intangible fixed assets	8,907	8,894
Investments and other assets		
Investment securities	6,973	6,832
Long-term loans	568	540
Bad debts	1,261	1,297
Long-term prepaid expenses	3,419	3,416
Deferred tax assets	14,641	14,654
Others	2,665	2,905
Allowance for doubtful accounts	(2,067)	(2,085)
Total investments and other assets	27,461	27,561
Total non-current assets	207,713	205,887
Deferred assets	703	123
Total assets	313,236	308,274

(Million yen)

	December 31, 2015	March 31, 2015
<Liabilities>		
Current liabilities		
Accounts payable	2,649	2,803
Accounts payable for completed projects	10,904	14,049
Short-term borrowings	1,297	23,065
Bonds due within one year	4,606	1,460
Lease obligations	2,907	2,355
Accounts payable-other	12,147	18,466
Accrued expenses	20	13
Accrued income taxes	1,799	944
Advances received	35,903	40,781
Customer advances for projects in progress	7,356	6,930
Reserve for employees' bonuses	3,231	-
Reserve for warranty obligations on completed projects	506	404
Reserve for fulfillment of guarantees	673	700
Others	3,981	4,546
Total current liabilities	87,986	116,521
Non-current liabilities		
Bonds	21,534	3,960
Long-term debt	14,422	7,196
Lease obligations	7,475	6,450
Long-term advances received	18,673	22,198
Lease/guarantee deposits received	7,630	8,019
Deferred tax liabilities	253	253
Reserve for apartment vacancy loss	3,849	5,280
Liability for retirement benefit	9,936	9,351
Others	2,482	2,569
Total non-current liabilities	86,257	65,279
Total liabilities	174,244	181,801
<Net assets>		
Shareholders' equity		
Common stock	75,282	75,282
Capital surplus	45,235	51,501
Retained earnings	19,156	427
Treasury stock	(3,660)	(3,660)
Total shareholders' equity	136,013	123,550
Accumulated other comprehensive income		
Net unrealized gains on "other securities"	473	379
Foreign currency translation adjustments	3,307	3,545
Remeasurements of defined benefit plans	(854)	(1,021)
Total accumulated other comprehensive income	2,926	2,904
Share subscription rights	18	18
Non-controlling interests	33	0
Total net assets	138,991	126,473
Total liabilities and net assets	313,236	308,274

(2) Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income
Consolidated Statements of Operations

(Million yen)

	Nine months ended December 31, 2015 (Apr. 2015–Dec. 2015)	Nine months ended December 31, 2014 (Apr. 2014–Dec. 2014)
Net sales	376,541	350,756
Cost of sales	311,661	296,837
Gross profit	64,880	53,918
Selling, general, and administrative expenses	49,270	44,405
Operating profit	15,609	9,513
Non-operating profit		
Interest income	28	28
Dividend income	69	75
Refund of fixed asset tax	-	90
Others	146	234
Total non-operating profit	244	427
Non-operating expenses		
Interest expenses	750	862
Commission fee	162	340
Others	276	100
Total non-operating expenses	1,189	1,303
Recurring profit	14,664	8,637
Extraordinary profit		
Gain on sales of property, plant and equipment	25	6
Total extraordinary profit	25	6
Extraordinary losses		
Loss on sale of property, plant and equipment	0	0
Loss on retirement of property, plant and equipment	81	230
Loss on evaluation of investment securities	19	-
Impairment loss	120	163
Total extraordinary losses	222	394
Income before taxes and other adjustments	14,467	8,249
Income taxes	1,992	405
Net income	12,475	7,843
Net income attributable to non-controlling interests	12	(13)
Net income attributable to shareholders of the parent	12,462	7,856

Consolidated Statements of Comprehensive Income

(Million yen)

	Nine months ended December 31, 2015 (Apr. 2015–Dec. 2015)	Nine months ended December 31, 2014 (Apr. 2014–Dec. 2014)
Net income	12,475	7,843
Other comprehensive income		
Net unrealized gains on “other securities”	94	(22)
Translation adjustments	(236)	1,511
Remeasurements of defined benefit plans	166	108
Share of other comprehensive income of associates	(2)	1
Total other comprehensive income	21	1,598
Comprehensive income	12,497	9,442
(Breakdown)		
Comprehensive income attributable to shareholders of the parent	12,484	9,455
Comprehensive income attributable to non-controlling interests	12	(13)

(3) Notes Regarding Consolidated Financial Statements

(Notes Regarding the Premise of the Company as a Going Concern)

There are no relevant items.

(Note Regarding Significant Changes in Shareholders' Equity)

At the Annual Meeting of Shareholders held on June 26, 2015, the Company resolved that, in accordance with the provisions set forth in Paragraph 1 of Article 448 of the Companies Act, the amount of legal capital surplus was reduced and the same amount as the reduced amount was transferred to the other capital surplus, and, in accordance with provisions set forth in Article 452 of the Companies Act, after the relevant transfer, all the other capital surplus was appropriated to offset a loss in retained earnings brought forward.

As a result, in the first nine months of the consolidated fiscal year, the capital surplus declined 6,266 million yen and retained earnings increased by the same amount.

(Segment Information)

Nine months ended December 31, 2015 (April 1, 2015 through December 31, 2015)

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	304,987	51,494	8,072	8,518	373,072	3,468	376,541	-	376,541
(2) Inter-segment sales and transfers	600	2,501	-	2,759	5,862	105	5,967	(5,967)	-
Total	305,588	53,995	8,072	11,278	378,934	3,574	382,509	(5,967)	376,541
Segment earnings (or loss)	18,155	852	(934)	(389)	17,684	530	18,215	(2,605)	15,609

Nine months ended December 31, 2014 (April 1, 2014 through December 31, 2014)

(Million yen)

	Reportable Segment					Others (Note 1)	Total	Adjustments (Note 2)	Consolidated Total (Note 3)
	Leasing Business	Construction Business	Elderly Care Business	Hotels & Resort Business	Segment Total				
Net sales									
(1) Sales to customers	296,353	37,694	7,978	6,546	348,573	2,182	350,756	-	350,756
(2) Inter-segment sales and transfers	460	9,159	-	2,083	11,702	98	11,800	(11,800)	-
Total	296,814	46,853	7,978	8,629	360,276	2,280	362,557	(11,800)	350,756
Segment earnings (or loss)	15,146	(1,855)	(380)	(690)	12,220	280	12,501	(2,987)	9,513

Note 1: "Others" classification consists of the business segment not included in reportable segments, and comprises such businesses as the small-claims and short-term insurance business, solar power generation business and financing businesses.

Note 2: Breakdown of adjustments is as follows.

Segment earnings (or loss)	(Million yen)	
	Nine months ended December 31, 2015	Nine months ended December 31, 2014
Inter-segment eliminations	(309)	(932)
Corporate expenses*	(2,296)	(2,054)
Total	(2,605)	(2,987)

*Corporate expenses consist mainly of general administrative expenses for administrative departments that are not part of reportable segments.

Note 3: Segment profit (loss) is adjusted to the operating profit on the Consolidated Statements of Operations.